

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 912 – Web Search Portal Business Sales and Property Tax Exemption (LSB 2922 HV.1)
Analyst: Shawn Snyder (Phone: (515) 281-7799) (shawn.snyder@legis.state.ia.us)
Fiscal Note Version – Amendment S-3422, as Amended by S-3439

Description

Amendment S-3422, as Amended by S-3439, to HF 912 provides an annual sales tax refund for up to five years for an information technology facility on the sales price from fuels used in creating heat, power, and steam for processing or generating electrical current, or from the sale of electricity consumed by computers, machinery, or other equipment for the operation of the facility. The Amendment as amended requires that to receive the sales tax refund that the business have:

- A North American Industry Classification System (NAICS) number of 518210.
- Capital expenditures for computers, machinery, and other equipment used for operation of the facility of at least \$1.0 million.
- Certification that meets the leadership in energy efficiency standards.

The amount of sales tax refunded will only be applied to the State sales tax and will not include any local option sales and services tax.

Assumptions

- To qualify for the sales tax refund, the business must be classified within the North American Industry Classification System (NAICS) under Code 518210 (Data Processing, Hosting, and Related Services).
- During 2006 the estimated annual cost of energy cost for servers and data centers was \$3.3 billion.
- Based on historical trends, estimated energy use by server farms and data centers is expected to increase by 11.8% each year from 2005 to 2010.
- Based on data from 2002, Iowa has 126 businesses that provided data processing, hosting, and related services. These businesses accounted for 0.9% of the number of similar businesses in the United States and 1.7% of the profits. Assumes that Iowa's market share in this industry will remain at this level through 2015.
- Although no specific data is currently available on capital expenditures by eligible entity, data from the 2002 U.S. Economic Census indicates that the average revenues of the 126 businesses in Iowa coded as NAICS 518210 was approximately \$7.3 million.
- The number of businesses that are certified as meeting the Leadership of Energy Efficiency (LEED) standards is currently unknown.
- Initial requests can be filed as soon as July 1, 2007, and cover the period from July 1, 2006, through June 30, 2007. These refunds will impact General Fund revenues in FY 2008.

Fiscal Impact

It is currently unknown how many of the specified businesses will qualify for the sales tax refund. However, the overall fiscal impact of Amendment S-3422, as Amended by S-3439, could be a potential decrease in General Fund revenues of \$3.0 million in FY 2008, \$3.4 million in FY 2009, \$3.8 million in FY 2010, and \$4.3 million in FY 2011.

Sources

Iowa Department of Revenue
North American Industry Classification System
U.S. Economic Census, 2002
Government Technology's Public CIO

/s/ Holly M. Lyons

April 24, 2007

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
